

A black line graph is plotted on a white grid background. The line starts at a low point on the left, rises to a peak, falls to a trough, rises to a higher peak, falls to a trough, rises to a higher peak, falls to a trough, and finally rises to its highest point on the right. The grid is composed of small squares, and the line is thick and black.

Economic Indicators

Prepared by the Department of Finance • April 2015

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
on the Montgomery County Web Page:
<http://www.montgomerycountymd.gov/finance/economic.html>*

For questions regarding this report, please contact:

*David Platt
Chief Economist
Montgomery County Department of Finance
101 Monroe Street, 15th Floor
Rockville, Maryland 20850*

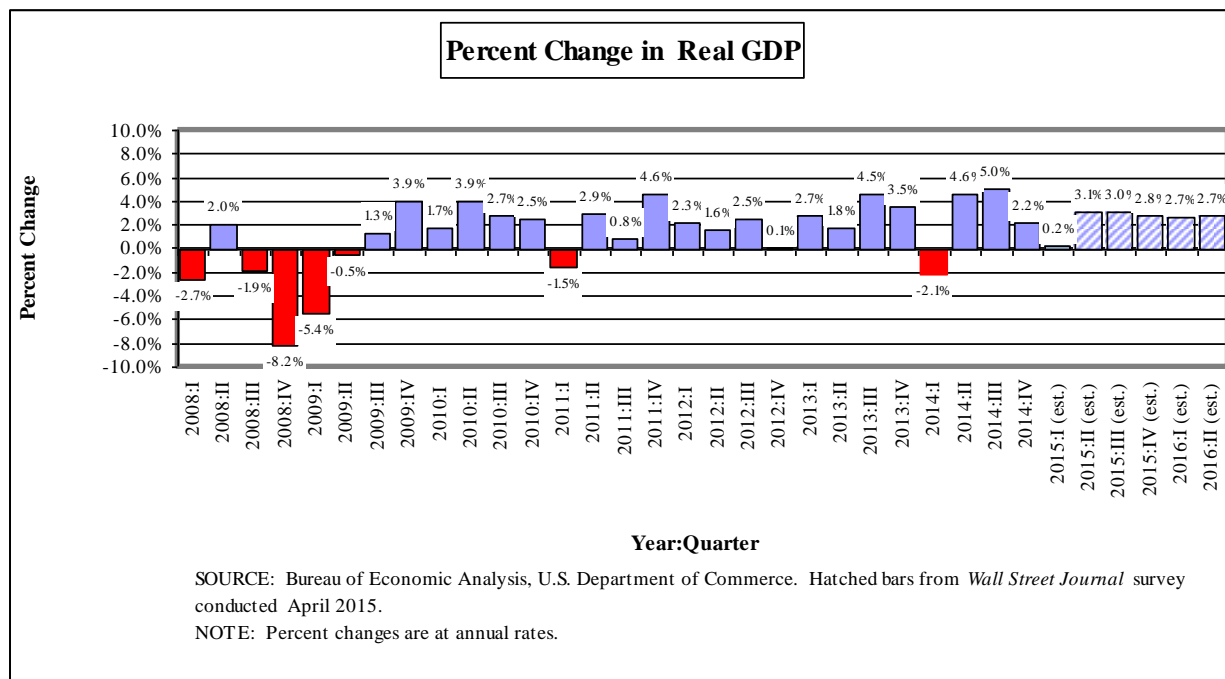
*Phone: (240) 777-8866
Email: David.Platt@montgomerycountymd.gov*

INTRODUCTION

This quarterly report provides an analysis of national, regional, and Montgomery County economic indicators for the first quarter of 2015. Quarterly data presented in this report are not seasonally adjusted except for the national gross domestic product.

NATIONAL ECONOMY

According to the advance estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 0.2 percent seasonally adjusted annual rate during the first quarter of 2015. That increase followed an increase of 2.2 percent during the fourth quarter of 2014. However, the first quarter increase was below the expected increase of 1.4 percent based on the April *The Wall Street Journal* (WSJ) survey of fifty economists. Data released by BEA for the first quarter “primarily reflected positive contributions from personal consumption (↑1.9%) and private inventory investment (↑1.3%) that were offset by contributions from exports (↓7.2%), non-residential fixed investment (↓3.4%), and state and local government spending (↓1.5%).” Real final sales of domestic product (real GDP less the change in private inventories) decreased 0.5 percent in the first quarter compared to an increase of 2.4 percent during the fourth quarter. Based on the WSJ survey of fifty economists, the average of responses expect economic growth to increase 3.1 percent during the second quarter of 2015, and 2.8 – 3.0 percent during the remaining two quarters in 2015, 2.8 percent for the entire year, and 2.7 percent during the first half of 2016.



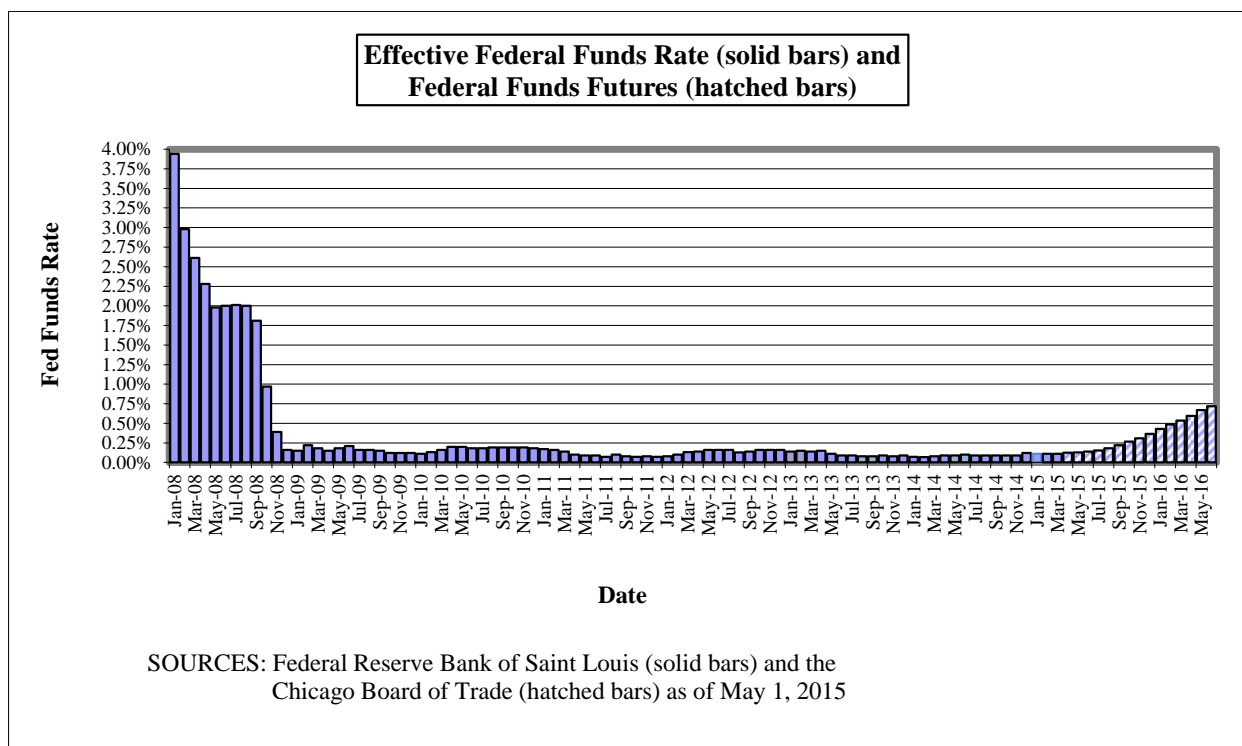
According to WSJ, “bad weather, cheaper oil, disruptions at West Coast ports, and a strong dollar partly contributed to the weak growth during the first quarter.” With a growth rate of 1.9 percent in personal consumption, consumers appeared to exhibit signs of caution especially with a decline of 0.3 percent in nondurable goods. The first quarter result appears to experience the same weak performance during previous first quarters and persistent sluggish first quarter growth rates. Since 2010, WSJ reports that first-quarter growth rates in GDP average 0.6 percent while the other three quarters averaged 2.9 percent. However, statistical procedures by government statisticians and economists at BEA are intended to “smooth out” seasonal swings due a slowdown in post-holiday retail sales and construction.

Subsequent to the April 28-29 meeting of the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System and BEA’s release of the advance GDP, the Committee stated that “economic growth slowed during the winter months in part reflecting transitory factors. Growth in household spending declined and business fixed investment softened and exports declined.” Inflation, as measured by the personal consumption expenditure (PCE) index excluding food and energy (“core” PCE), continued to run below the FOMC’s longer-run objective of 2.0 percent. During the first quarter of 2015, the “core” PCE index increased 1.3 percent.

Following its March 2015 meeting, the FOMC released its latest economic projections from 2015 to 2017 (the next scheduled release of its economic projections is in June). Real GDP is expected to increase between 2.3 and 2.7 percent in 2015, between 2.3 and 2.7 percent in 2016, and between 2.0 and 2.4 percent in 2017. As stated previously, the April survey of economists by *The Wall Street Journal* estimates that real GDP will increase 2.8 percent in 2015. However, both the March FOMC projections and the April WSJ survey were done before the release of the first quarter real GDP by the BEA on April 30.

Both the April WSJ survey of economists and the economic projections by the FOMC in March suggest that unemployment will gradually decrease to 5.1 percent by the end of 2015. “Core” inflation will increase modestly between 1.3 and 1.4 percent in 2015 and between 1.5 and 1.9 percent by 2016. The survey of economists by the WSJ forecasts that inflation, as measured by the consumer price index (CPI), will increase gradually to 2.3 percent by December 2016.

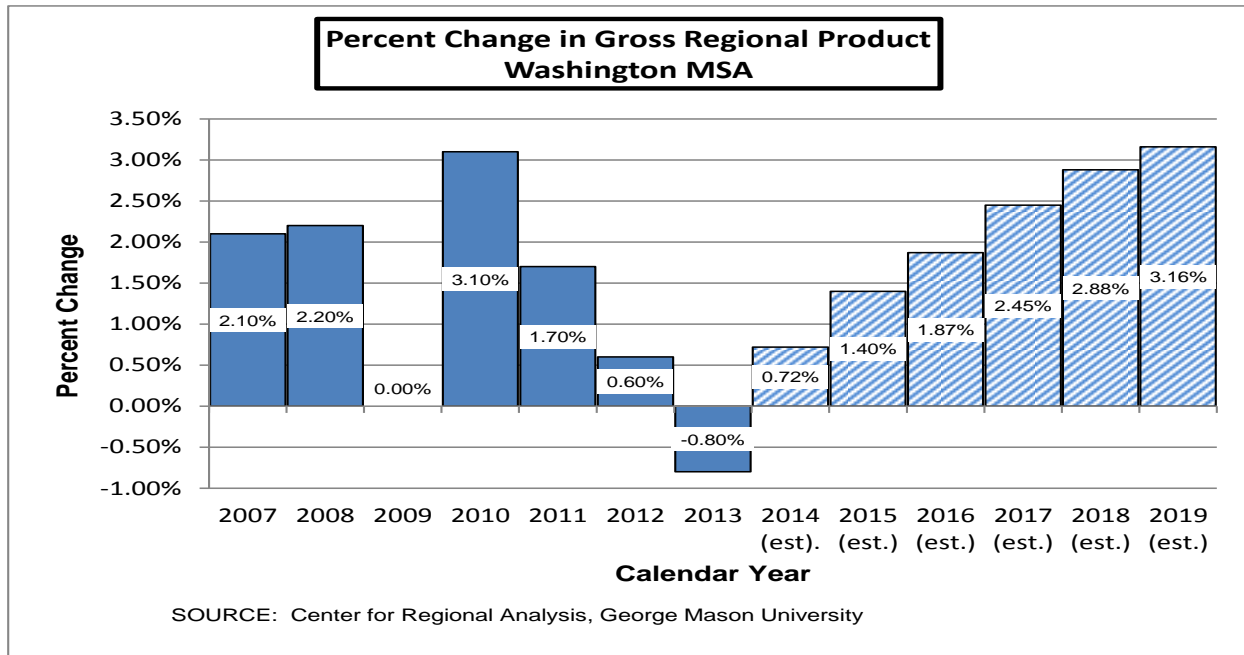
Following the meeting of the FOMC on April 28-29, the futures market for the 30-day federal funds rate remains at or below the 0.25 percent level through the third quarter and into the fourth quarter of 2015. Based on the implied probabilities of a rate increase in the effective federal funds rate, the Chicago Mercantile Exchange (CME Group) suggests a 65.2 percent probability of a rate hike by the FOMC in December of this year and 79.2 percent in January 2016. The April WSJ survey of 50 economists estimate, on average, that the federal funds rate could reach 0.67 percent by March 2016. Following its March meeting, the FOMC released its latest economic projections through 2016. The average of responses from seventeen participants indicated increasing the target federal funds rate to 0.77 percent in 2015, 2.03 percent in 2016, and 3.18 percent in 2017. While the increase in 2015 exceeds that of the federal funds futures market, it should be noted that all of the responses ranged from 0.125 percent to 1.625 percent while the vast majority of responses ranged between 0.625 percent and 1.375 percent.



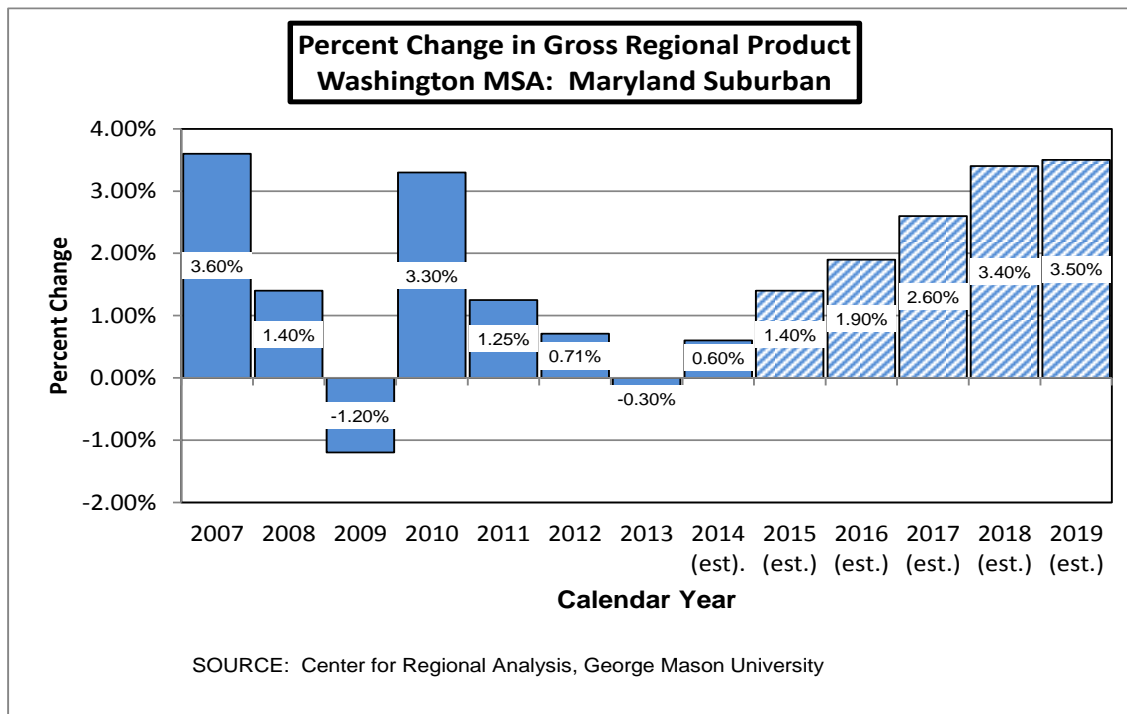
Following a very strong performance in 2013, the growth in the stock market moderated in 2014 and experienced a mixed performance during the first quarter of this year. During the first quarter, the Dow Jones Industrial Average (DJIA) decreased 0.26 percent which followed a 7.52 percent increase in 2014. The Standard and Poor's 500 Index (S&P 500) increased 0.44 percent in the first quarter and followed an increase of 11.39 percent in 2014. The NASDAQ and the Russell 2000 indices experienced better performances during the first quarter than the DJIA and S&P 500 indices. After increasing 13.40 percent in 2014, the NASDAQ grew 3.48 percent during the first quarter. While the Russell 2000 index grew a modest 3.53 percent in 2014, it increased 3.99 percent during the first quarter thereby exceeding to date its annual rate in 2014.

REGIONAL ECONOMY

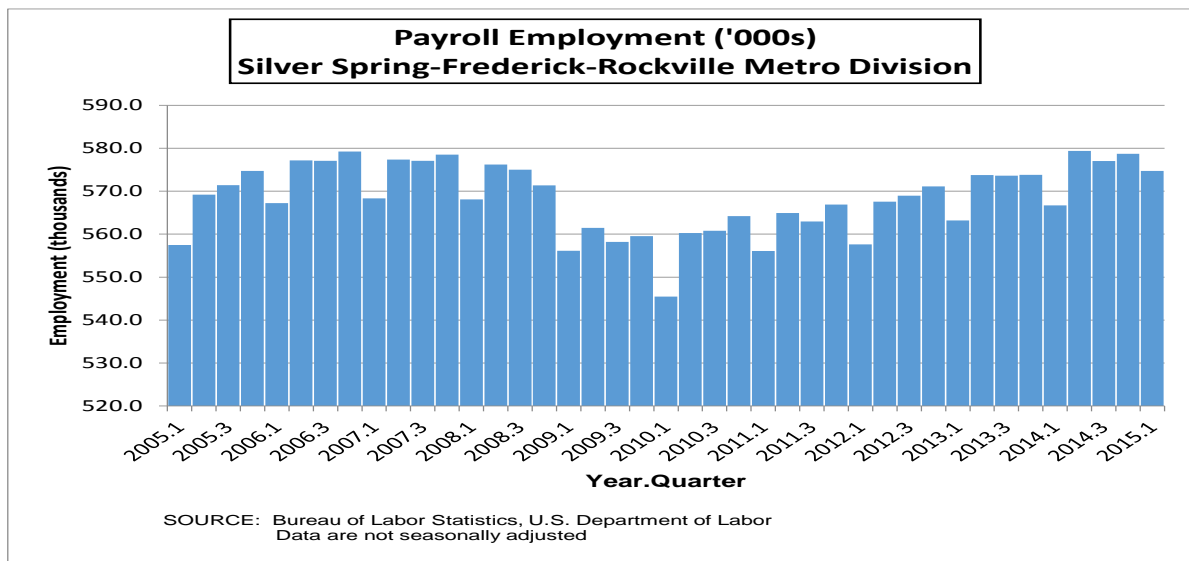
According to BEA and the Center for Regional Analysis (CRA), George Mason University, the region's economy contracted in 2013, the latest date for which data are available, the first time since the end of the national recession in 2009. As measured by the gross regional product by MSA, the regional economy declined 0.8 percent in 2013. This is the first decline since 2009 ($\downarrow 0.001\%$). The sectors that contributed to the decline were professional and business services ($\downarrow 0.27\%$) and government ($\downarrow 0.41\%$). According to CRA, the decline "was driven by federal spending reductions, both in contracting and wages that resulted from the military and stimulus drawdowns, sequestration, and the federal shutdown." CRA estimates that the gross regional product will increase from a modest 0.72 percent in 2014 (well below the 2.4 percent national rate) to 3.2 percent in 2019.



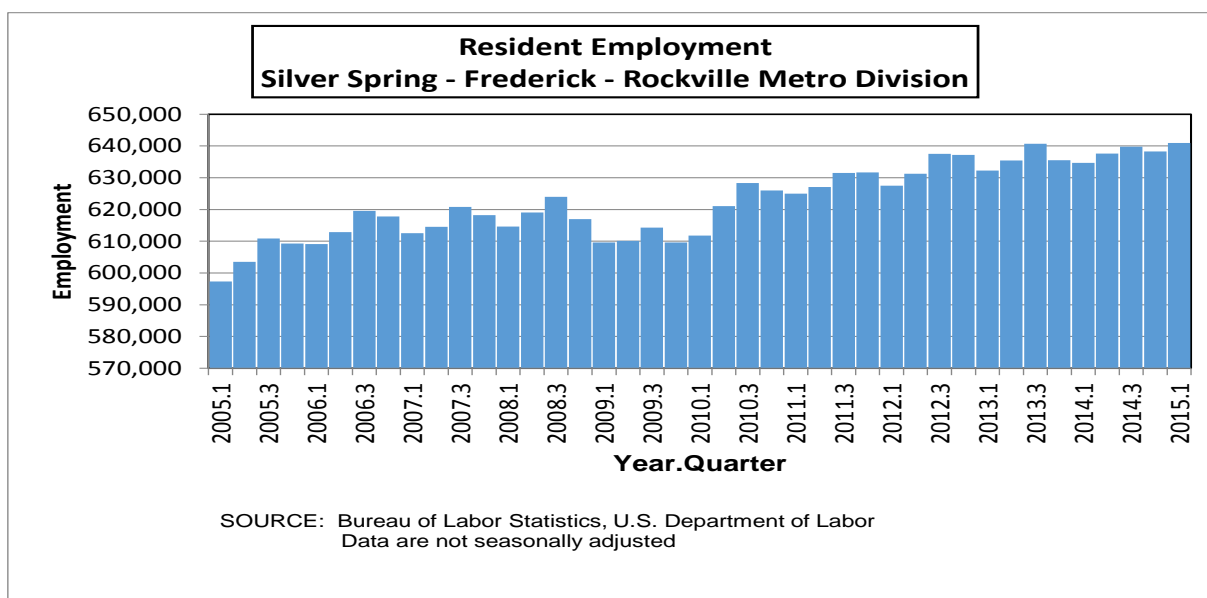
CRA also estimated that the gross regional product for the Maryland suburban area of the Washington MSA will increase from 0.60 percent in 2014 to 3.50 percent in 2019. According to CRA's forecast the suburban Maryland's economy is expected to grow at a faster rate than the entire Washington metropolitan area.



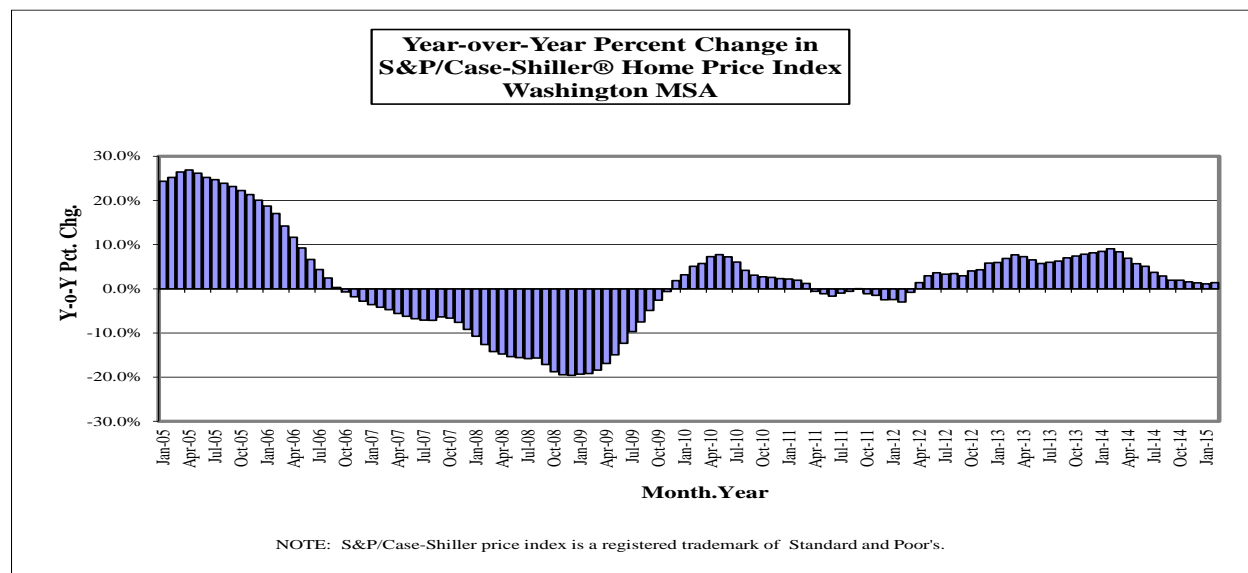
Revised payroll employment from the Bureau of Labor Statistics, U.S. Department of Labor, for the Silver Spring-Frederick-Rockville (SSFR) metropolitan division was 575,500 in 2014 and 0.77 percent above 2013. For the first quarter of 2015, payroll employment was 574,700 – an increase of 1.42 percent above the first quarter of 2013 figure of 566,700. Please note that the quarterly data are not seasonally adjusted, and data for the first quarter of a calendar year are typically below total annual employment.



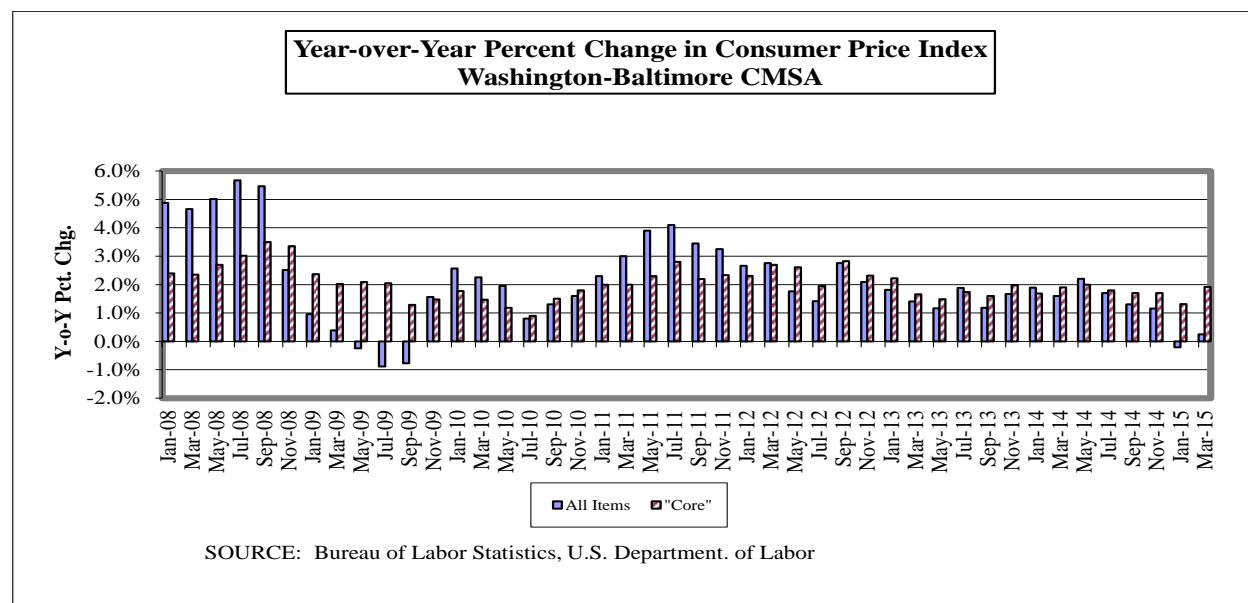
Employment for the Silver Spring-Frederick-Rockville residents, as measured by the survey of households or resident employment, was 637,600 – an increase of 0.25 percent from 636,000 in 2013. During the first quarter of 2015, employment as measured by that survey increased nearly 1.00 percent from 634,646 during the first quarter in 2013 to 640,960.



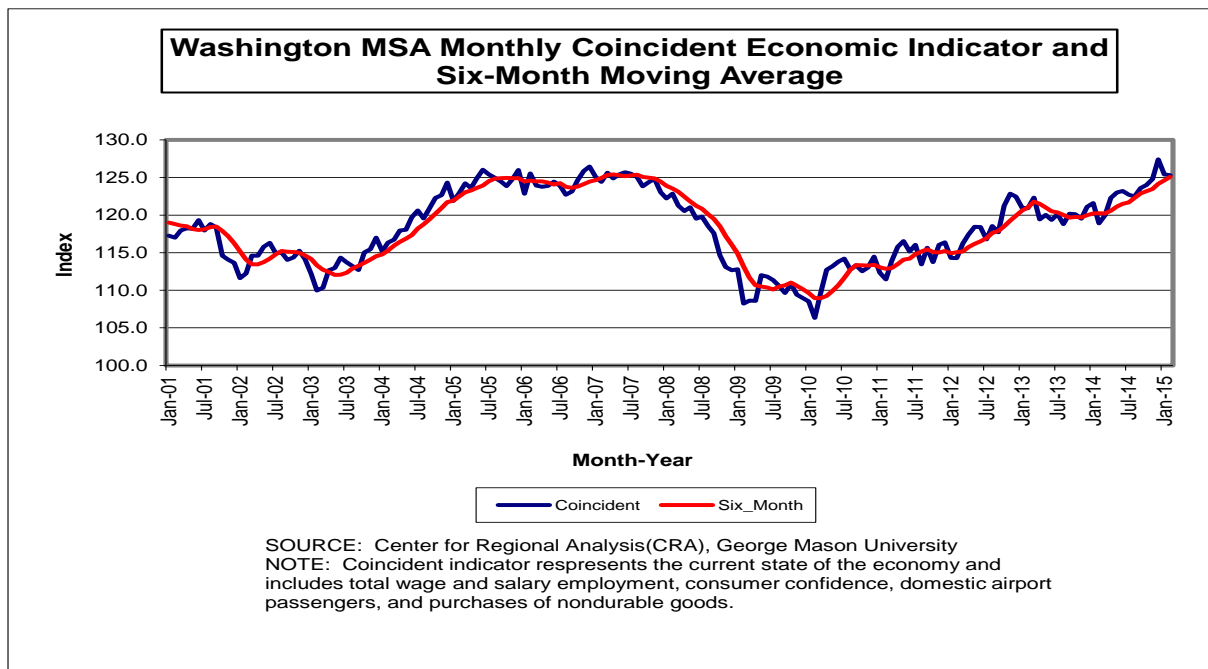
The resale housing market across the region experienced a modest growth between February 2014 and February 2015. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices from February 2014 to February 2015 increased 1.4 percent and have increased 24.3 percent since the recent low point of the index in March 2009.



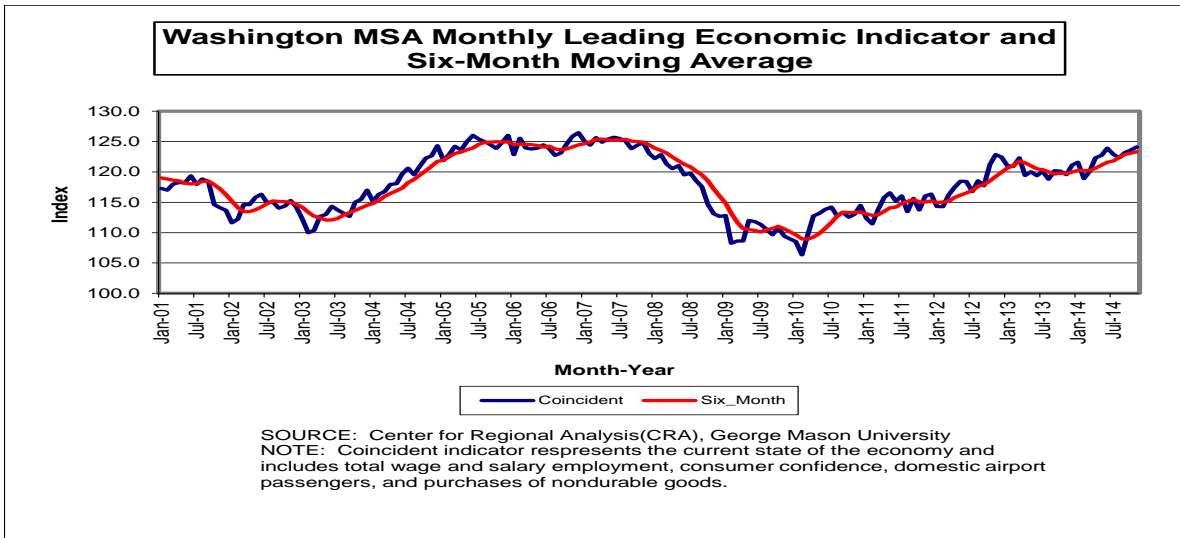
As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased a meager 0.2 percent on a year-over-year basis in March 2015 over March 2014 which was attributed to low energy prices. However, consumer prices excluding food and energy purchases were up 1.9 percent in the region (on the same year-over-year basis) during that same period. On an annual basis, the CPI-U increased 1.54 percent in 2014 – virtually the same rate as in 2013 (1.52 percent).



According to CRA, the monthly coincident economic indicator for the Washington metropolitan region decreased 0.1 percent from January to February 2015 – the latest date for which data are available. However, on a six-month moving average, a method to smooth the month-to-month volatility and provides a better indicator of change, the index increased 0.4 percent over the same period last year. The coincident index measures the current performance of the region's economy and is based on a six-month moving average. According to that measure, the region's economy has increased at a modest rate since January 2014.



While the coincident indicator decreased in February, CRA also reported that the leading economic indicator decreased 0.4 percent from January to February. Smoothing the month-to-month volatility with a six-month moving average, the index increased 0.2 percent. The leading index measures the economic performance of the region three to six months ahead. For the three-month period ending in November, the leading index increased each month over that period. Using the six-month moving average, this indicator suggests that the region's economy may experience modest growth over the next three to six months. Based on the recent trend in the leading index, it suggests that the region's economy will experience growth over the next six to nine months as confirmed by CRA's estimate of GRP for 2015.

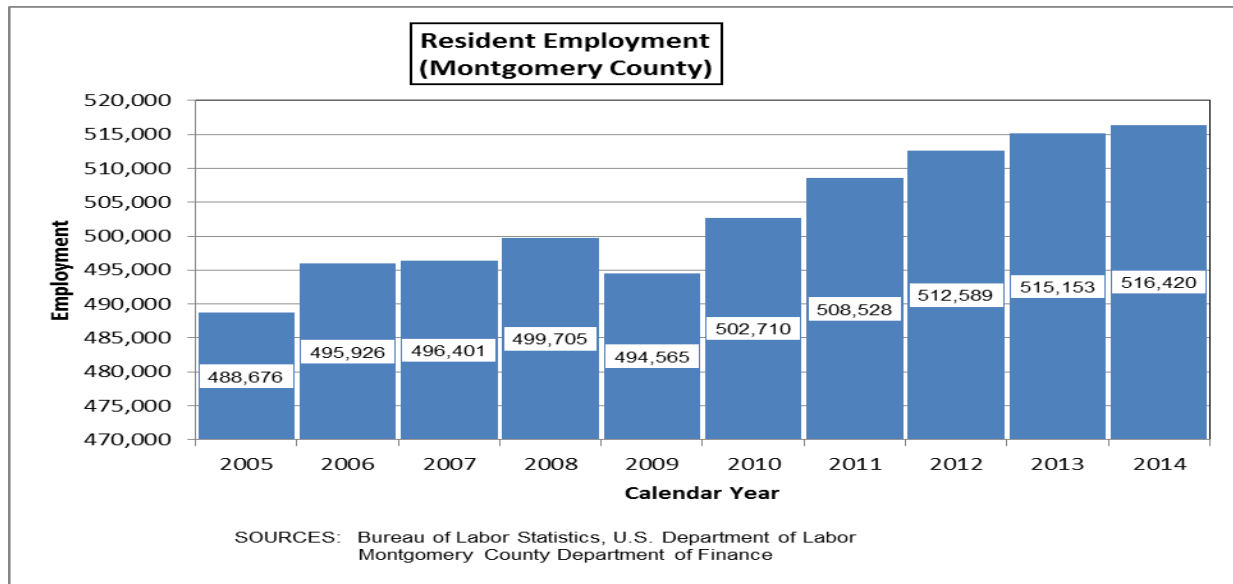


MONTGOMERY COUNTY ECONOMIC INDICATORS

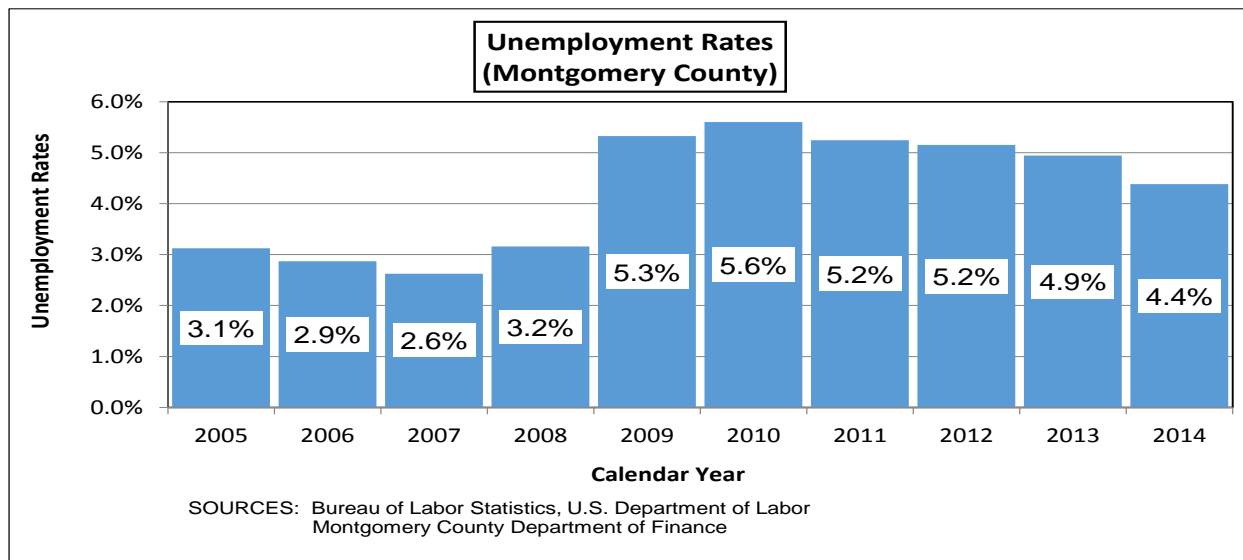
Montgomery County's economy experienced mixed economic performance during the first quarter of 2015. The reasons for a mixed performance include such positive indicators as an increase in residential employment and sales of existing homes, and a decline in the unemployment rate. A decline in the average price for existing homes and in the construction of new residential units partially offset the positive indicators for employment and home sales.

Employment Situation

Based on revised data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, resident employment (labor force series and not seasonally adjusted) in 2014 increased by nearly 1,300 from 2013 ($\uparrow 0.25\%$). During the first quarter of 2015, resident employment increased by nearly 5,200 or 1.00 percent over the first quarter of 2014.



The County's unemployment rate declined to 4.4 percent compared to 4.9 percent in 2013 and is the lowest level in six years. However, the decline in the unemployment rate is attributed to a larger percentage decline in the labor force ($\downarrow 0.35\%$) than a percentage increase in resident employment ($\uparrow 0.25\%$). The unemployment rate declined from 4.5 percent during the first quarter of 2014 to 4.1 percent in the first quarter of this year.

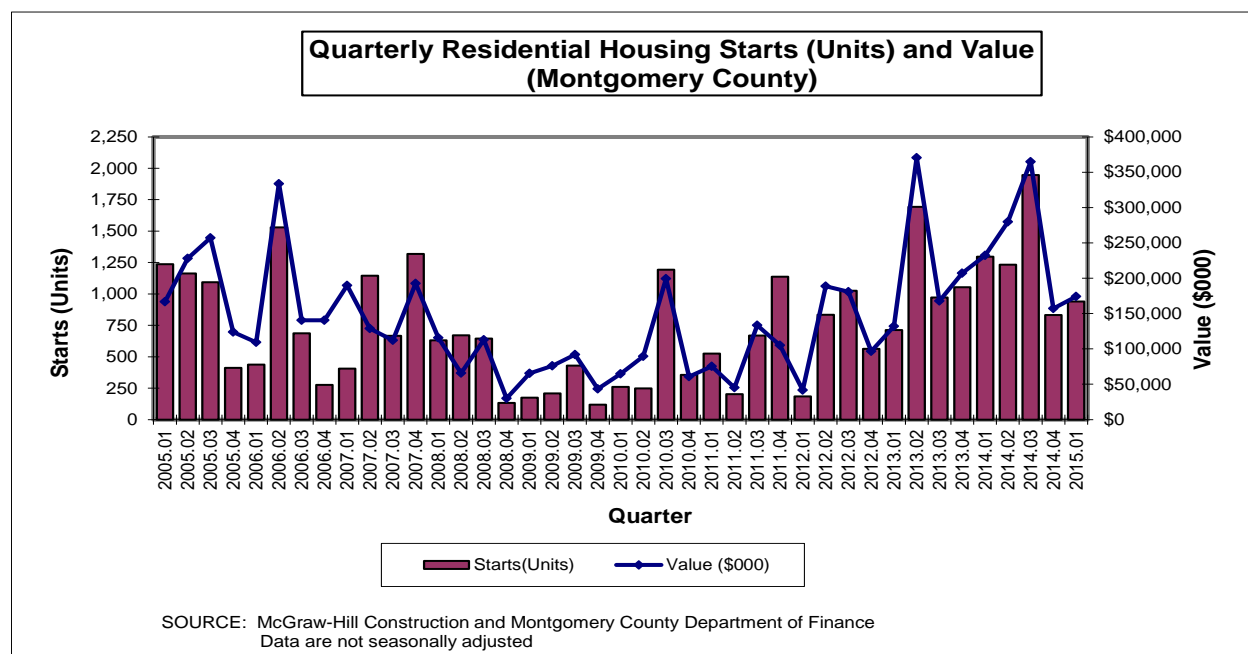


Construction Activity

After experiencing a decrease of 5.9 percent in the construction of new residential units in 2014, construction of new units continued to decline during the first quarter of 2015 compared to the same period in 2014. Even with that decline, the number of new residential units constructed during the first quarter was the second highest number in ten years. The decrease was attributed

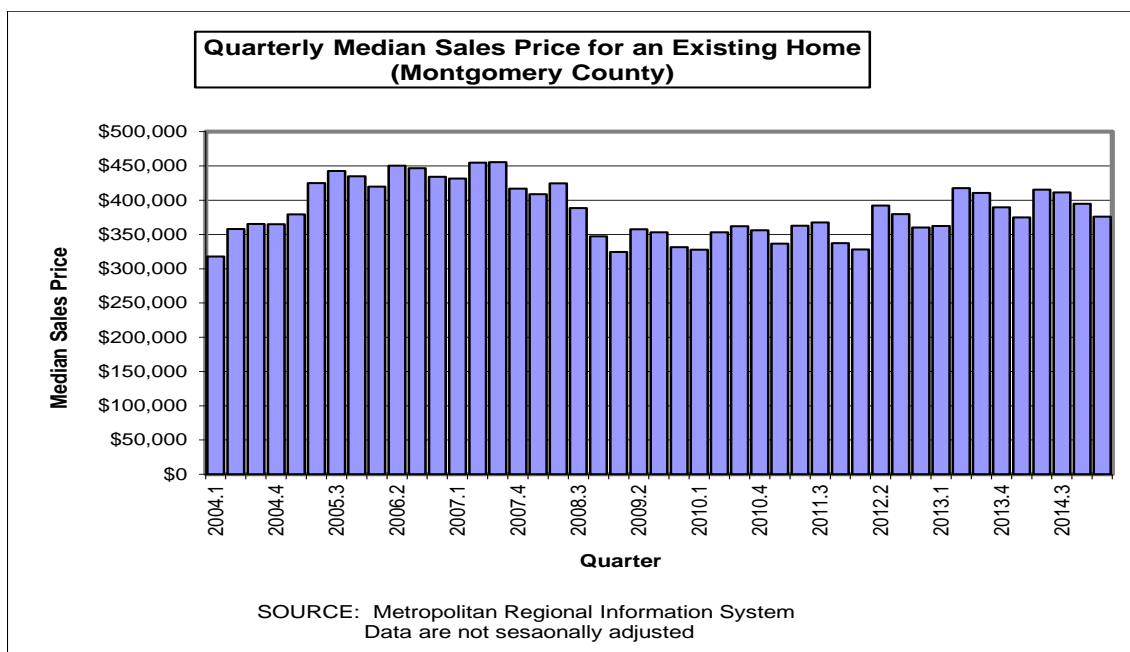
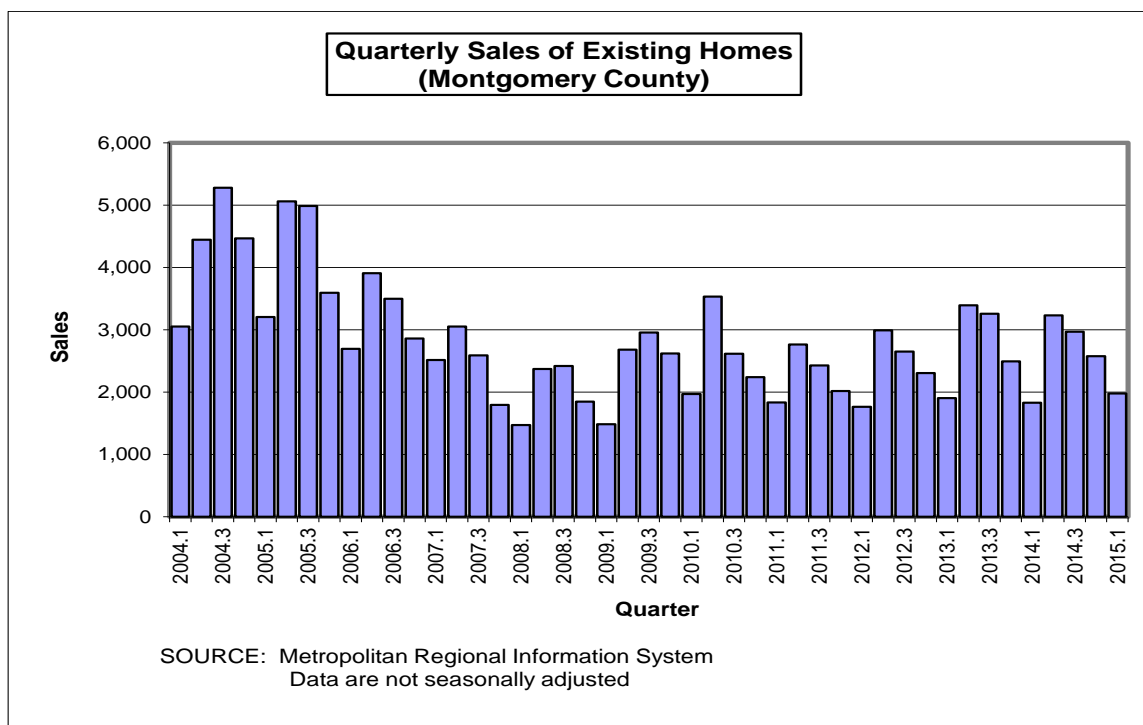
to the construction of single-family homes ($\downarrow 25.4\%$) and multi-family units ($\downarrow 27.1\%$). Total value added increased slightly in 2014 ($\uparrow 0.2\%$) but declined 25.0 percent in the first quarter compared to the same period in 2014. As with the number of starts, the value added during the first quarter was the second highest in ten years.

While the number of non-residential construction projects increased in 2014 ($\uparrow 46.2\%$), the number of new projects declined during the first quarter ($\downarrow 44.4\%$) but the value added increased 22.8 percent to the highest level since the first quarter of 2010. The difference between the decline in the number of projects and the increase in value added is attributed an increase in the amount of square footage for the construction of garages and service stations and school and colleges.



Residential Real Estate

During the first quarter of 2015, existing home sales increased 8.1 percent from the same period in 2014. While average sales prices for existing homes decreased 2.5 percent during the first quarter compared to the first quarter of 2014, the median sales price increased 0.3 percent.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales, including assessment collections, increased 2.8 percent during the first two month of 2015 compared to the same two-month period in 2014. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 2.3

percent during this period while sales of durable goods were up 11.7 percent. The increase in nondurable goods purchases was largely attributed to the increase in food and beverage items (↑4.1%) and general merchandise (↑10.7%), while the increase in purchases of durable goods was solely attributed to an increase in automobile sales and products (↑6.7%); hardware, machinery, and equipment (↑5.7%); and furniture and appliances (↑28.8%). Given the increase in home sales during the first quarter, the increase in sales of furniture and appliances is associated with increase in home sales given the historical relationship between the two variables.

CONCLUSION

The major economic indicators confirm that the County's economy experienced mixed performance during the first quarter of 2015. The reasons for a mixed performance include an increase in resident employment, a decline in the unemployment rate, and an increase in home sales. Those positive indicators were partially offset by the decline the in average price for an existing home, no change the median price for an existing home, and a decline in the construction of new residential units.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2014
				2015	2014	
Leading Indicators						
National	Mar. '15	0.2%		n.m.	n.m.	n.m.
Washington MSA	Feb. '15	-0.4%		0.8%	4.9%	3.0%
Coincident Indicators						
National	Mar. '15	0.1%		n.m.	n.m.	n.m.
Washington MSA	Feb. '15	-0.1%		4.6%	-0.9%	2.1%
Consumer Confidence Index						
National	Apr. '15	-6.1%		22.4%	26.8%	18.7%
South Atlantic Region	Apr. '15	-2.8%		23.1%	28.8%	24.1%
Consumer Sentiment (University of Michigan)	Apr. '15	3.1%		16.7%	6.9%	6.2%
Consumer Price Index						
All Items (nsa)						
National	Mar. '15	-0.1%		-0.1%	1.4%	1.6%
Washington - Baltimore CMSA	Mar. '15	0.2%		0.0%	1.7%	1.5%
Core CPI (nsa)						
National	Mar. '15	1.8%		1.7%	1.6%	1.8%
Washington - Baltimore CMSA	Mar. '15	1.9%		1.6%	1.8%	1.8%
Retail Trade						
National (sales - nsa)	Mar. '15	1.6%		2.1%	2.1%	4.0%
Maryland (sales tax)(1)	Feb. '15	3.4%		4.4%	-2.5%	3.6%
Montgomery County (sales tax)(1)	Feb. '15	0.5%		2.8%	-3.3%	2.5%
Employment						
Maryland (labor force data - nsa)	Mar. '15	2,942,938	2,912,791	2,929,333	2,898,430	2,929,977
- Percent Change		1.0%		1.1%		0.4%
Silver Spring-Frederick-Rockville (labor force data)	Mar. '15	644,097	635,127	640,960	634,646	637,558
- Percent Change		1.4%		1.0%		0.2%
Montgomery County (labor force data)	Mar. '15	521,440	514,156	519,232	514,097	516,420
- Percent Change		1.4%		1.0%		0.2%
Montgomery County (QCEW)	Sept. '14	457,101	454,271	453,561	451,070	n.a.
- Percent Change		0.6%		0.6%		
Unemployment						
Maryland (nsa)	Mar. '15	5.4%	6.1%	5.6%	6.3%	5.8%
Silver Spring-Frederick-Rockville (nsa)	Mar. '15	4.1%	4.7%	4.3%	4.7%	4.5%
Montgomery County (nsa)	Mar. '15	4.0%	4.5%	4.1%	4.5%	4.4%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	Mar. '15	\$102,494	\$108,562	\$340,355	\$270,404	\$1,392,600
- Percent Change		-5.6%		25.9%		-21.0%
Residential (\$ thousands)	Mar. '15	\$102,494	\$91,991	\$151,701	\$215,898	\$935,916
- Percent Change		11.4%		-29.7%		0.2%
Non-Residential (\$ thousands)	Mar. '15	\$0	\$16,571	\$188,654	\$54,506	\$456,684
- Percent Change		-100.0%		246.1%		-44.9%
Building Permits (Residential)						
Maryland	Mar. '15	1,035	1,059	3,167	4,488	17,353
- Percent Change		-2.3%		-29.4%		-4.3%
Montgomery County (units)	Mar. '15	157	237	379	2,055	3,818
- Percent Change		-33.8%		-81.6%		8.7%
Building Permits (Non-Residential)						
Montgomery County	Apr. '15	201	188	568	546	1,886
- Percent Change		6.9%		4.0%		-8.4%
Construction Cost Index						
Baltimore	Apr. '15	6,928.92	6,941.60	7,000.09	6,940.64	6,944.95
		-0.2%		0.9%		0.2%
Real Estate						
Case-Shiller Home Price Index®(nsa)						
	Feb. '15	206.30	203.45	205.93	203.39	207.67
		1.4%		1.2%		4.7%
Maryland						
Sales	Mar. '15	5,417	4,353	13,197	11,160	65,429
- Percent Change		24.4%		18.3%		2.2%
Median Price	Mar. '15	\$246,361	\$245,877	\$236,997	\$240,964	\$260,899
- Percent Change		0.2%		-1.6%		-0.2%
Montgomery County						
Sales	Mar. '15	836	709	1,977	1,829	10,612
- Percent Change		17.9%		8.1%		-4.0%
Average Price	Mar. '15	\$499,348	\$494,896	\$469,270	\$481,404	\$503,956
- Percent Change		0.9%		-2.5%		0.7%
Median Price	Mar. '15	\$397,450	\$375,000	\$375,983	\$375,000	\$400,000
- Percent Change		6.0%		0.3%		0.0%
Average Days on the Market	Mar. '15	75	54	75	57	50

NOTES:

(nsa): not seasonally adjusted

(QCEW): Quarterly Census of Employment and Wages

(saar): seasonally adjusted at annual rate

(1): Data include miscellaneous and assessment collections.

(n.m.): not meaningful